

STATE TRADING BY UNDEVELOPED COUNTRIES*

J. N. BEHRMAN†

INTRODUCTION

State trading by most of the less-developed countries is a comparatively new phenomenon, arising generally since 1950. Efforts to accelerate economic development and to demonstrate political and economic neutralism have fostered bilateral trade by several of the undeveloped and newly nationalizing countries.

Bilateralism has been largely a result of trading with the Sino-Soviet bloc, which has generally insisted on government-to-government trade or governmentally-balanced payments. In response to invitations of the Soviet Union, Communist China, and East European members of the bloc, several countries in South Asia have embarked on bilateralism during the past few years. Although these countries have bilateral agreements with a few non-Sino-Soviet-bloc countries, there is little pressure from them to bilateralize trade and thus to employ state trading.¹

Trade of the Sino-Soviet bloc with South America has been an "on-again-off-again" proposition, with only Argentina, Brazil, and Uruguay being important. The bloc's trade with the Middle East has been most importantly with Egypt (United Arab Republic) and laden heavily with political motives on both sides. In South Asia and the Pacific, Japan and Afghanistan would provide interesting studies. But the four countries chosen for examination here—Burma, Ceylon, Indonesia, and India—provide a kaleidoscope of the growth of bilateralism and state trading by undeveloped countries; their experiences also provide some insight into the methods and success of economic penetration. This examination has been made with the objective of determining: (1) the motives for state trading, (2) the results of bilateralism with the Sino-Soviet bloc, and (3) the desirability of counteracting policies by the West.

I

BURMA

During 1954 and 1955, Burma negotiated bilateral trade and payments arrangements with Bulgaria, Communist China, Czechoslovakia, Hungary, Poland, Ru-

* The writer wishes to acknowledge his debt to Mr. Ernest J. Rubin, of the Eastern European Section, European Division, Office of Economic Affairs, United States Department of Commerce, for making available current materials relative to Soviet-bloc trade with these countries.

† B.S. 1943, Davidson College; M.A. 1945, University of North Carolina; M.A. 1950, Ph.D. 1952, Princeton University. Professor of Economics and Business Administration, University of Delaware; Research Associate with Patent, Trademark, and Copyright Foundation, The George Washington University. Co-author [with Raymond F. Mikesell], *FINANCING FREE WORLD TRADE WITH THE SINO-SOVIET BLOC* (1958); [with W. E. Schmidt] *INTERNATIONAL ECONOMICS* (1957); [with Gardner Patterson], *SURVEY OF UNITED STATES INTERNATIONAL FINANCE, 1950-1951* (1952). Contributor to economics, political science, and legal publications.

¹ The close tie between bilateralism and state trading is explained elsewhere in this symposium. See Mikesell & Wells, *State Trading in the Sino-Soviet Bloc*, *supra* 435; Spulber, *The Soviet-Bloc Foreign Trade System*, *supra* 420.

mania, East Germany, and the Soviet Union. (It has agreements with Israel and Yugoslavia also, but these account for insignificant portions of Burma's trade.)

A. Motivation

Burma's economic welfare is heavily dependent upon its ability to export rice at favorable prices. Its decision to enter into bilateral arrangements with the Sino-Soviet-bloc countries was largely motivated by a desire to expand its markets for rice at a time when it was having difficulty selling in its traditional markets.

High prices for rice in 1951-53 (during the Korean War boom) supported large government expenditures for economic development projected for 1954 and 1955. But a fall in rice prices during these latter years sharply reduced the availability of foreign exchange. The Burmese Government was forced to impose import restrictions to protect its exchange reserves. An increase in the quantum of rice exports after 1955 was little more than sufficient to offset the continued drop in price, as is shown in table one.

TABLE I
BURMESE RICE EXPORTS, 1953-57

	1953/54	1954/55	1955/56	1956/57
Value (million kyats).....	840	845	899	870
Volume (million tons).....	1.22	1.27	1.63	1.93
Price (dollar average per ton of rice and rice products).....	180	140	112	95

Part of the Burmese problem in disposing of rice stemmed from practices of the State Agricultural Marketing Board. During 1951-54, it hoarded rice in anticipation of a continued world shortage of rice and a consequent return of rising prices. At the end of 1954, rice which was poorly stored and deteriorating had to be cut in price in order to dispose of it. Of the 1,300,000 tons stored, some 200,000 tons were unfit for human consumption and had to be disposed of at very low prices (\$50 per ton).

As a result of the reduced foreign exchange receipts, drastic cuts in the development program had to be made during 1954, and new import restrictions were imposed in March 1955. Burma's immediate problem became one of obtaining an export volume of some 2,000,000 tons of rice in order to obtain income for its economic development and to dispose of its accumulated surpluses.

B. The Agreements

Burma began an international campaign in 1954 to export some 2,000,000 tons of rice during 1955 and in 1956. Barter agreements appeared to be a solution to part of the problem. The governmental agreement with Communist China in November 1954 and the contracts with other Sino-Soviet-bloc countries during 1955 disposed of 550,000 tons of rice (the Soviet Union took between 150,000 and 200,000 tons). Burma received eighty per cent of the value in Sino-Soviet-bloc goods and the rest in sterling.

Agreements signed in 1956 raised the total yearly contracted sales of rice to the Sino-Soviet countries to over 700,000 tons. These agreements tied some thirty-five per cent of Burma's export of rice to the Sino-Soviet bloc's exports of goods and technicians.² Most of the agreements extended through 1958 and were automatically renewable unless canceled; the Soviet agreement extends into 1960. However, the trade agreement with Communist China was allowed to expire in early 1957; all subsequent trade was to be on a cash basis. Also, those with Bulgaria and Poland were terminated in 1957, before their normal expiration.³

The value of exports to the Sino-Soviet area under the 1956 agreements was to be calculated at prices varying from \$4.33 to \$4.62 per hundred pounds of rice (around \$100 per ton), which were very near to world market prices at the time. Shipments to the Soviet Union through 1960 under one agreement are to amount to 400,000 tons yearly at about \$95 per ton. Under another agreement, the Soviet Union is to supply, by 1963, a technical institute to train 1,000 students, plus housing for the faculty and staff and technical training in the Soviet Union for the faculty and staff, a 500-seat assembly hall, a 100,000-volume library, a restaurant, sports grounds, a swimming pool, and eighteen fully-equipped laboratories. In addition, the Soviet Union is to build a hospital, a theater, and a "cultural and sports center" which will include a stadium, industrial and agricultural exhibit halls with a conference hall, and hotel facilities. The Soviet Union is to send architects and technicians to train Burmese. Work began during 1957. Estimates by the Burmese Government place the total cost at about \$44,000,000 (220,000,000 kyats, of which 80,000,000 kyats will be local currency costs borne by Burma). In return for this "gift," Burma is to give "a corresponding quantity of rice and other Burmese commodities" (estimated at a value of 140,000,000 kyats), to be shipped over a period of twenty years. The \$27,000,000 of costs met by the Soviet Union should "purchase" about 270,000 tons of rice, adding only about 14,000 tons to its yearly imports.

C. Operation of the Agreements

Under the impetus of these agreements, total Burmese exports of rice rose from 1,400,000 tons in 1954 to 1,800,000 tons in 1955; in 1955, nearly 400,000 tons went to the Sino-Soviet bloc. Burma's trade with the European Soviet bloc was practically nonexistent until it negotiated agreements in 1954 and 1955. In 1955, rice exports to the Sino-Soviet bloc accounted for twenty-four per cent of Burma's total rice exports, but they declined to fifteen per cent of its total rice exports in 1956. Trade with Communist China in 1956 accounted for half of Burma's trade with the bloc; Czechoslovakia was the second most important supplier of Burma's imports from the Sino-

² The Soviet Union did not insist on bilateral balancing under each agreement. That between Czechoslovakia and Burma signed in 1956 permitted trilateral settlement: Burma shipped rice to the Soviet Union, which gave credit of equal value to Czechoslovakia; Burma imported from Czechoslovakia and credited the Soviet account.

³ See Allen, *Burma's Clearing Account Agreements*, 31 PAC. AFFAIRS 147, 151 (1958), for the details of these agreements.

Soviet bloc, but still supplied only two per cent of Burma's total imports. (See table two.)

TABLE II
TOTAL BURMESE TRADE WITH SINO-SOVIET BLOC, 1956
(MILLION KYATS)

	Com- munist China	Soviet Union	East Germany	Poland	North Vietnam	Czecho- slovakia	Hungary	Bulgaria	Total
Exports.....	57.2	17.8	3.7	14.4	21.2 insigni- ficant	114.3
Imports.....	77.9	14.9	5.9	10.7	25.2	8.1		142.7

Agreement volumes of rice exports amounted to between 400,000 and 500,000 tons in 1955, doubling during 1956, though actual shipments in 1956 equaled only 300,000 to 400,000 tons. During 1957, shipments of rice to bloc countries dropped below 300,000 tons. Soviet imports of rice were cut to one-fourth their former volume, and the Soviet Union diverted shipments of 47,000 tons of rice to India as a goodwill gesture to that country, with a consequent loss of normal Burmese sales to India.

The operation of Burma's bilateral agreements with the Sino-Soviet-bloc countries has been marked by three unsatisfactory developments: (1) the quality of the imports from the Sino-Soviet bloc has been poor, and the deliveries slow and irregular; (2) Burma became an involuntary creditor under some of the agreements, when she expected to receive credits; and (3) the world rice market improved, making sales in the free market more attractive than deliveries under contracts to the Sino-Soviet-bloc countries.

1. *Delivery and quality problems*

Burma's unsatisfactory experience with imports from the Sino-Soviet bloc was due, in part, to the inexperience of Burmese negotiators and to poor planning of its import program. For example, the Burmese ordered cast iron pipe by weight rather than by specified lengths. They were overeager in ordering cement for projects which had not been started and before the structural steel was available. When the cement arrived, there was no place to store it, and the rains rendered much of it unusable. Burma later re-exported over a third of the cement to India at a book loss of over a half million dollars.

Also as a result of poor phasing of Burma's import program, Chinese spindles and looms were received even before the plant building was started. The machinery and equipment lay around for a full year before it could be housed, and two or three years more were required before it could (or will) be put to use. Part of the error in Burma's calculations arose from the fact that it placed the orders for the equipment in Communist China when world prices for rice were high. It, therefore, anticipated ample earnings from other sources to keep development plans in phase. Soon thereafter, however, prices collapsed, reducing foreign exchange income. In

addition, the Chinese made very rapid deliveries, which were not anticipated by the Burmese. Lack of proper phasing and of domestic funds were also reasons for Burma's canceling a Soviet loan of £5,000,000 in 1958; the Soviet Union was to finance half the costs of two dams, but Burma could not raise its half of the financing.

As to the quality of imports, Burma had been accustomed to British Imperial specifications. Sino-Soviet-bloc exports have not generally met such standards. Some of the Czech tractors arrived with the wrong type of couplings, delaying their use. Several shipments of consumer items turned out to be unmarketable; electrical items arrived which did not fit Burmese sockets; and 2,000 cases of Czech whiskey turned out to be all but undrinkable. Soviet textiles were so drab and poor in quality that a \$10,000,000 barter of Soviet textiles was refused; the Burmese also considered that they were overpriced by an estimated thirty-five per cent. The overpricing of Soviet goods extended to other items and was coupled with delays in delivery and unsatisfactory packing.

Because of their poor quality, Burmese importers have not shown any great eagerness to purchase consumer goods from the Sino-Soviet bloc, despite a rise in domestic prices resulting from severe import restrictions imposed during 1955. Only Czech machinery and equipment matched West European standards. The Burmese have been surprised, however, at the high quality of Chinese textile machinery.

2. *Clearing surplus*

The regular deliveries of rice, coupled with the slow rate of purchases by Burma in the Sino-Soviet area, resulted in Burma's accumulating clearing balances. Only Communist China has supplied a significant amount of consumer goods, and only Czechoslovakia and East Germany appreciable amounts of capital goods.

The U.S.S.R., with which Burma has the largest exchange credits, has either been unable or unwilling to meet Burma's requirements. As a result of this unbalanced supply situation among the barter countries, Burma's purchases from China and Czechoslovakia exceed its earnings from exports to these countries while a large part of its barter accounts are left unused.⁴

On September 30, 1956, the Sino-Soviet bloc, as a whole, owed Burma \$11,000,000. Burma's balance with Communist China was exceptional; Communist China had built up a \$6,000,000 surplus as of September 1956. Burma was normally in deficit with Communist China as a result of bilateral trade, but Communist China has placed itself in a stronger credit position by making cash payments to Burma. For example, in 1956, Communist China paid sterling amounting to 30,000,000 kyats at a time when it already had a surplus in its clearing account with Burma. The apparent reason for this action is that Communist China considers Burma a sort of "rice bowl" which it wishes to be able to tap in case of emergency without prior negotiation; it is, therefore, willing to keep a credit balance with Burma.

⁴ *Burma Finds Barter Deals Unsatisfactory*, Foreign Agriculture Service (U.S. Dep't of Agriculture), May 1957, pp. 19-20.

As of April 1, 1957, Burma had a barter balance with the Sino-Soviet area of 18,000,000 kyats. Its credit balances with the Soviet Union of 46,000,000 kyats and with Czechoslovakia of 32,000,000 kyats were almost offset by a debits balance of 67,000,000 kyats with Communist China.

3. *Improved world market*

The anticipated assist to Burma's development through increased availability of Sino-Soviet-bloc goods under the agreements failed to materialize. Rather, the world market in rice reversed, increasing the possibility of open-market sales by Burma. Burma had entered the bilateral deals when its rice surpluses were large and prices were low. By late 1956, Burma was committed to large rice exports to Sino-Soviet-bloc countries and could not supply the rising demand on the cash markets. An especially sharp thorn in Burma's side was the announcements by Hungary (in November 1955) and Communist China (in late 1956) that they had resold Burmese rice to Western countries and to Ceylon and Indonesia; these actions cut Burma's exports for free currencies. The shortage of foreign exchange forced a cutback in Burma's development plans early in 1957.

The improved market condition, reflecting a reduction of rice stocks, was not entirely a result of the increased sales under barter. Burma's initial difficulty in marketing its rice in 1955 stemmed in part from a lack of recognition that the Korean boom was over and a buyer's market was emerging. The state monopoly failed to improve its marketing procedures or to permit the price to drop; it lost customers, and a surplus accumulated. Rather than reduce prices at that time, the Government turned to bilateralism. Between October 1955 and March 1956, about twenty-seven per cent of Burma's rice exports was under barter agreements. By early 1956, however, the state marketing agency recognized its mistaken policies and lowered prices more into line with the world market price. Cash sales took place in increasing amount, cutting stocks, and by the beginning of 1957, the world surplus seemed to have disappeared.

In view of the poor performance in delivery from the Sino-Soviet bloc, Burma has developed a decided preference for cash customers. In late 1956, Burma attempted to reduce its commitments to deliver rice under its contracts with the Sino-Soviet bloc. The exports under agreements covering 1956 reached only 240,000 tons instead of the 405,000 tons agreed upon. It was reported in December 1956, that Burma would ship between 55,000 and 105,000 tons of rice in 1957 to the Sino-Soviet bloc (*plus* the 165,000 tons carryover of orders from 1956 contracts), as compared to the 470,000 tons called for in the agreements.

Public sentiment in Burma against the barter deals rose so high during the latter part of 1956 that the "man on the street" was prone to blame all errors and inadequacies (such as battery failure, bad canned goods, etc.) on imports under the barter arrangements with the Sino-Soviet bloc.

D. Evaluation of Agreements

Burma experienced unsatisfactory results from its attempts to deal with a problem of temporary agricultural surpluses and low world prices through bilateralism. Just about everything went wrong: deliveries to Burma were of inferior quality, were the wrong kind for her requirements, and were poorly timed. In addition, Burma built up surpluses with the Sino-Soviet bloc, instead of receiving net credits as it had hoped,⁵ and the world market for rice suddenly improved after the contracts with the Sino-Soviet bloc were negotiated, making sales in the free market more attractive. Such results are odd in view of the fact that, for political reasons, the Sino-Soviet bloc had sought to make the trade deals attractive to Burma.

The benefit to Burma of trade under the bilateral agreements arises from the additional (though unstable) markets for rice over and above that which can be sold at satisfactory prices in price markets. Burma's exports to Communist China—the only Sino-Soviet-bloc country with significant purchases over the postwar period—have shown a high degree of instability. They have dropped from over a \$13,000,000 equivalent in 1948 to zero in 1950 and risen sharply in 1955 to over a \$17,000,000 equivalent. This instability may be desirable if it coincides with the periods when Burma is seeking to unload rice outside of the free world market. But, from Burma's standpoint, there is no need for bilateral agreements to effectuate this trade. In periods of surplus, it would be far better to sell rice to the Sino-Soviet bloc at low prices for cash, with an agreement that the rice will not be re-exported to non-Sino-Soviet-bloc countries.

The position of the Burmese Government has been summarized by its Minister of Trade Development as follows:⁶

Many of our friends keep on reminding us of the difficulties of such arrangements. Some of them even tell us that there are "hidden dangers." We are not unaware of the difficulties and implications involved. Our position is that we have rice to sell and we must sell it if we are to survive. . . . We are willing to sell all our rice for cash . . . [but] it may yet take some time before we can dispose of all our rice for cash [and then be able to buy imports in the competitive market]. . . . It is not for us to go into the motives of our customers.

As a result of its long-term bilateral deals with the Sino-Soviet bloc, Burma has considerably altered its trade pattern. Trade with the Sino-Soviet bloc since World War II has risen from less than three per cent to over twenty per cent of Burma's total trade, and undoubtedly Burma has complicated its internal political problems by the invasion of Soviet technicians.

II

CEYLON

Ceylon's case, like Burma's, exemplifies the difficulties of attempting to meet what may be short-run difficulties by long-run methods. Ceylon failed to find the stable

⁵ See Allen, *supra* note 3, at 156.

⁶ Speech to Burma Chamber of Commerce, Feb. 8, 1956, quoted in Trager, *Burma's Foreign Policy, 1948-1956*, 16 J. ASIAN STUDIES 89, 101 (1956).

market it sought in the Sino-Soviet bloc, but it was able to improve its terms of trade considerably in the barter of rubber for Chinese rice. The agreements with Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and the Soviet Union have been in effect only a year or two and have had little impact on Ceylon's trade.⁷

A. Motivation

The motives of the Sino-Soviet bloc in trading with Ceylon stemmed from the strategic value of rubber. Communist China tried to obtain rubber from Ceylon soon after the Korean War began, but it was not successful until late in 1951.⁸ Other Sino-Soviet-bloc countries were apparently merely interested in establishing contact.

Ceylon's interest in bilateralism resulted from market instability, a search for economic independence, and the opportunity of the Korean War.

Tea, rubber, and coconuts constitute eighty-five per cent of Ceylon's exports (tea, sixty per cent; rubber, seventeen per cent; and coconuts, twelve per cent, on the average). These exports are the origin of much of its national income. A large

⁷ Ceylon has had a trade agreement with Czechoslovakia since late 1955, but their trade has been insignificant. Ceylon's imports from Czechoslovakia accounted for half its imports from the Sino-Soviet bloc in 1957 (excluding Communist China), and another third came from Poland; the two combined made up only ½% of Ceylon's total imports. The only significant trade, therefore, was with Communist China, until the Soviet Union showed interest in late 1957.

The expansion of Ceylon's bilateral trade with the Soviet Union occurred after the establishment of diplomatic relations in early 1957. The Soviet Union has been interested in purchasing Ceylonese tea at contracted prices rather than through the auction. Ceylon had refused; it also refused a 1957 Soviet offer to buy 10% of Ceylon's production at a contracted price in exchange for machinery and agricultural equipment; it refused another offer by the Soviet Union to buy the entire rubber output of Ceylon at higher than world market prices in exchange for Soviet goods. Ceylon refused in late 1958 an offer to help put new acreage into rubber if it were sold to the Soviet Union and a request to sell tea to the Soviet Union on barter terms.

Although the Soviet Union was unable to persuade Ceylon to tie either its tea or rubber production to the Soviet economy, Ceylon sought and received special assistance from the Soviet Union. Among the areas in which Soviet aid has been offered or sought are those of clearing land for sugar cane production, transport (buses, railroad cars, and road-building equipment), oil survey, river development (for which a low-interest loan was offered), and establishment of a steel-rolling factory to meet all of Ceylon's yearly needs (30,000 tons).

To place their trade relations on a more permanent footing, Ceylon and the Soviet Union signed a trade agreement in February 1958. The pact was originally signed for one year; a credit of \$840,000 was extended each way, with balances over this amount to be settled in cash in 30 days. Ceylon's exports were to include tea, rubber, coconut oil, copra, and coconut products. The Soviet Union was to send petroleum, iron and steel products, chemicals and fertilizers, cement, timber, cotton, textiles, and machinery. In line with the policy of "ceylonization" of foreign trade, the Soviet Union is to give preference to Ceylonese exporters and importers. The same month, a credit agreement extending \$28,500,000 (equivalent) over a 12-year term at interest of 2½% was signed. The credit is to finance 16 different projects, including river basin development, tire and tube plants, flour-milling and grain elevators, fishing industry, prefabricated-housing factory, and equipment for science-teaching labs for secondary schools.

The Czech trade agreement has been extended for three years, providing for medium-term credit for exports to Ceylon of textiles, paper, glass, engineering products, cars, trucks, and tractors. Czechoslovakia is under no obligation to buy Ceylonese products; thus, Ceylon may be required to pay balances in foreign exchange. The only project signed under the agreement has been for a sugar refinery.

As of March 1958, Sino-Soviet aid to Ceylon totaled nearly \$60,000,000, accepted but not fulfilled.

⁸ In December 1948, the Soviet Union offered to buy the entire 1949 rubber crop at a fixed price, but Ceylon refused on the ground that it would be uneconomic to tie the country to a single other country in the sale of rubber.

demand for imported rice places heavy requirements on foreign exchange earnings. The prices of rice and rubber have been unstable over the postwar period. Rice accounts for between fifteen and twenty-five per cent of yearly imports. The purchasing power of rubber over rice dropped by sixty-five per cent in 1947, as compared to prewar, and, despite wide monthly variations, remained approximately at that level from year to year until 1950. Under the impact of sterling devaluations and the entry of Communist China and the Soviet Union into the rubber market, rubber recouped all its former (prewar) purchasing power over rice. But the price of rubber fell again in 1952, the year in which the trade agreement with Communist China was signed. The difficulty of importing adequate volumes of rice in the postwar period was accentuated by the relative decline in the price of tea. These price changes forced Ceylon to raise export volumes to maintain required imports and led to pleas for bilateralism.⁹

The extensive dependence of Ceylon upon the sterling area and its intensive dependence upon the United Kingdom have given rise to feelings of dissatisfaction in Ceylon with its portion of the benefit of trade.¹⁰ Ceylon's trade during 1954-56 was over fifty per cent with the sterling area, mostly the United Kingdom.

The feeling that its economy was unstable and too dependent on single other countries was a strong factor in Ceylon's search for other markets. In an effort to make certain that the direction of trade was what the country required, rather than what other countries desired, Ceylon embarked on a program of "ceylonization" of trade—that is, the handing over to citizens of Ceylon the privilege of trading abroad. Foreign traders living in Ceylon and exporting to the West were progressively discriminated against, so as to make it more difficult for them to continue to operate. Bilateralism, with the Government entering the market more strongly, supported the move to eliminate "foreign" traders.¹¹

⁹ "Ceylon has thus increased her contribution to the World of her exportable surplus of production of her chief plantation industries Tea and Rubber and Coconut, but she has not in return obtained a *pro tanto* increase in her consumer and capital goods. If she had obtained these in just and fair measure she would not be the under-developed country that she is and be seeking foreign capital on loan to finance her development works, present, and of the immediate future.

"Her poverty thus becomes more and more impoverished and the countries to whom she supplies her produce become richer. Any direction of Ceylon's Overseas Trade policy must thus have prominently in view the real production and real consumption needs of Ceylon. Her Overseas Trade must not be allowed to be the cause of her progressive pauperisation and of the deterioration in the standards of the living of her peoples. She must seek and strive to obtain real values for her exports.

"It is suggested that: (1) Political ideologies should not debar Ceylon from disposing of her exportable surplus in the best markets and prevent her from procuring her requirements in the cheapest. . . . (3) Ceylon's Overseas Trade in the present international setting should be re-oriented on realistically determined standards of barter." Suntharalingam, *Back to Barter in Ceylon's Overseas Trade?*, 1 CEYLON ECONOMIST 280, 287-88 (1951).

¹⁰ The same writer argued that the trade in "tea is exceedingly backward and the United Kingdom gives us very much less than she should for an essential commodity in the category of food and drink which she gets from Ceylon." *Id.* at 287.

¹¹ All trade with Communist China (whether or not under the agreement), and including both imports and exports, went through the Ceylon Controller of Rubber. Private trade with Communist China from Ceylon was permitted only in early 1958; however, trade with the East European members of the Sino-Soviet bloc has been carried on privately, but only registered Ceylonese traders may export to them, and then only under government license.

Although dissatisfaction over trade with the West played a background role in the development of barter trade with Communist China, more specific forces were at work. These factors were closely tied to the efforts to ban Western trade with Communist China during the Korean War and to the failure to obtain some international agreement on the distribution and pricing of rubber.¹²

Faced with pressure to ban exports of rubber to the Sino-Soviet bloc during the Korean War, Ceylon was fearful that its bargaining position would be reduced, while that of the purchasing countries would be strengthened. Ceylon wanted some form of protection as a condition of destination control. The conferences in 1950 and 1951 failed to provide such protection. The United States Government had, in 1951, attempted to negotiate a bulk-purchase agreement with Ceylon for its rubber; but it offered only the Singapore price, which was then lower than the prevailing Colombo price. The Ceylonese Government refused the lower price; it was later affronted to learn that the United States Government had subsequently agreed to buy Siamese rubber at a price higher than that offered to Ceylon.

Ceylon was then receiving insignificant United States aid. It did not thereby greatly need exemption from the Kem amendment, which required that assistance to any country exporting strategic items to the Sino-Soviet bloc be cut off; but it still attempted to present its case to the West. Ceylon asserted that any interference with the direction of trade would reduce the price of rubber and thus slow its economic development. Also "reasonably high prices" were needed by Ceylonese producers in order to rehabilitate estates which had been "slaughter tapped" during the war as a contribution to the common effort. But, the United States Government continued to try to stop Ceylonese shipments of rubber to Communist China; it asserted that such shipments "made U. S. aid, and even the export of U. S. sulphur to Ceylon, impossible." The Ceylonese Government considered that it was being singled out for discriminatory treatment, especially after exemptions from the Kem amendment were extended to India and Pakistan.

Ceylon had shipped the first cargoes of rubber to Communist China only in September 1951. By the end of 1951, it had exported 5,500 tons to Communist China, out of a total export of 57,000 tons during that year. The shipments to Communist

¹² "In view of the stated Asian trade aims of the Peking Government and Ceylon's precarious dependence on a few export plantation crops, the inevitability of some such agreement [as the rubber-rice deal] was becoming apparent even in 1950 when a conference in London failed, because of irreconcilable differences of opinion between producers and consumers, to achieve some form of international control of rubber. Thereafter, for nearly three years, the Ceylon Government and rubber interests in the country frequently made known their concern to find stable markets for a key export, and indicated their desire to solve the problem within the framework of the Western trading bloc. It was only when, for a variety of reasons, this proved impossible, that Ceylon turned to China. Accordingly, opinion in Ceylon has been a good deal puzzled by American insistence upon seeing the new agreement through Chinese rather than Ceylonese eyes.

"Nothing could be easier than to view the Ceylon-China trade agreement from a purely political standpoint. Nothing, however, could be more misleading or less conclusive to a solution to the whole vexed question of Western, and especially British, trade with China. Ceylon has acted not so much from economic motives as from economic compulsions. . . ." Cardew, *Ceylon's Trade with China: The Economic Background*, 25 NEW COMMONWEALTH 377 (1953).

China were strictly on a commercial basis—*i.e.*, not under a barter agreement. Ceylonese sales of rubber to Communist China amounted to 34,000 tons during 1952, helping to maintain its prices above the world market and prevent a collapse of the Ceylon rubber industry. Members of the rubber industry had asserted that if they had to accept the world market of 1.10 rupees per pound, they would have to cut wages by thirty-two per cent in order to continue production. Such an action could not be countenanced by the Ceylonese Government.

Negotiation failures with the United States were paralleled by an increasing likelihood of a deal with Communist China.¹³

The Ceylonese Minister of Trade and Industry stressed the compelling circumstances under which the Communist Chinese Government offer in 1952 was received.¹⁴

We could have got rice at £80 or £90 per ton, but we could not afford to pay that price. [The price of Chinese rice for the first year of the agreement was £54 per ton.] Rather than go to China were we to starve? Were we to reject the Chinese offer of Rs. 1.75 per lb. for rubber, take the world price of Rs. 1.10 and throw 300,000 labourers out of employment? The contract has resulted in a gain of Rs. 98 million to this country.

Such a gain was especially tempting when the government revenue had fallen (along with a drop in exports and an unfavorable change in the terms of trade) by nearly thirty per cent during 1952 and foreign exchange reserves had declined.

B. Barter with Communist China

Ceylon's barter agreement with Communist China was signed in December 1952, making it currently the only country in Southeast Asia with several years of experience in trading with Communist China. The rubber-rice exchanges were to cover five years, with 270,000 tons of rice to be traded for 50,000 tons of rubber each year, at prices to be negotiated yearly. Price increases for rubber during the operation of the yearly agreements unbalanced the accounts in favor of Ceylon. At the end of 1955, Ceylon was 45,500,000 rupees ahead in the exchange. This balance was not supposed to arise, for both partners have apparently attempted to barter-balance their trade. Accounts were supposed to be settled quarterly, but this has not always been accomplished.

Ceylon has, at times, accepted Burmese rice in settlement, either re-exported from Communist China or exported directly from Burma on Chinese account. This settlement was, in fact, to the advantage of Ceylon, for Chinese rice has been of a "sticky" nature and of a lower quality than Burmese. In order not to re-export rice which it has obtained from Burma, Communist China has attempted to open Ceylon's

¹³ The United States Government attempted, again, in early 1952 to negotiate a bulk purchase of Ceylonese rubber, but this attempt, too, failed over price, even though Ceylon was willing to take an *average* of prices ruling in London, New York, Singapore, and Colombo. Another unsuccessful negotiation was initiated by Ceylon in July 1952; it wished to obtain needed rice imports, to negotiate a sale of rubber, and to obtain United States aid for development in compensation for a lower price on rubber sales. The United States Government, however, offered *only* to assist Ceylon in purchasing rice in the open market at competitive prices.

¹⁴ As quoted by Cardew, *supra* note 12, at 378.

door to a more varied list of Chinese exports. Ceylon has so far resisted such efforts, since its main desire is for rice.

The shift in the origin of rice imports shows one of the main impacts of the agreement with Communist China, as may be seen in table three. Before World War II, Ceylon purchased almost seventy per cent of its rice from Burma. Since the agreement with Communist China, Burma sold more to Ceylon than did Communist China in only one year (1955); in that year, the drop in Chinese exports was made up not from Burma, but from India and Pakistan. Burma's direct loss was partly made up by re-exports of rice to India by Communist China and the Soviet Union. But its loss of traditional markets was the reason given for Burma's bilateralism, as was seen in the foregoing part.

TABLE III
CEYLONESE RICE IMPORTS
(THOUSAND LONG TONS)

	Average 1934-38	1953	1954	1955	1956
From-					
Burma.....	342	141	189	186	241
Communist China.....	—	261	193	120	247
Thailand.....	88	—	—	12	—
India/Pakistan.....	81	—	—	61	neg.
Other.....	4	2	15	—	neg.

SOURCE: COMMONWEALTH ECONOMIC COMMITTEE, RICE SUPPLEMENT TO GRAIN BULLETIN (1956).

Another important result of the agreement has been the difference in the price of rubber obtained from Communist China and in the open market. Under the early negotiations, the price of rubber was fixed higher than the world market. The 1954 agreement, however, resulted in a loss of ten rupees per pound at the end of the year, as a result of world price rises. Rises in late 1955, after a drop in early 1955, again brought losses, as compared with the world price, of about forty rupees per pound. And the drop in the 1955 rubber crop caused further losses from lower sales on the world market, as Ceylon met its commitments to Communist China.

Rubber prices picked up in late 1955, but in 1956 fell twenty-five per cent on the world market, then rose to recover the lost ground; over the year, prices were fifteen per cent lower than in 1955. Ceylon's position, however, was largely insulated from these changes through the rubber-rice agreement with Communist China. Under it, Communist China took some 55,000 tons of rubber out of 87,000 tons exported during 1956. Prices were based on Singapore's monthly average, as indicated in table four.

While world prices were falling an average of fifteen per cent, the prices at which Ceylon sold its rubber dropped by only about four per cent over the year. Some instability was evidenced, however, in the total volume of rubber exported; it dropped from 97,000 tons in 1955 to 87,000 tons in 1956, with the total value thereby dropping

TABLE IV
CEYLONESE RUBBER PRICES

If the Singapore price was:	China paid:
22d	27d
between 22d and 27d	Singapore price + 6d/lb.
" 28d and 34d	" " + 5d/lb.
" 35d and 39d	" " + 4d/lb.
39d	" " + 3d/lb.

about seventeen per cent between the two years—from 350,000,000 rupees to 293,000,000 rupees.

In 1956, Singapore and Malaya relaxed their embargoes on the sale of rubber to Communist China; the effect was to lower the premium Ceylon had previously received. The 1957 agreement, also signed for five years, called for a trade of 200,000 tons of rice for 50,000 tons of rubber, on a straight sale basis, with no premiums. In lieu of premium prices for rubber, Ceylon received a \$15,800,000 grant from Communist China. In 1958, Communist China paid the market price for rubber, but extended goods equal \$3,250,000 to aid in Ceylon's development.¹⁵ On Ceylon's part, it purchased 300,000 tons of rice from Communist China in 1958, 100,000 tons over the contracted amount, and paid a higher price on this portion than on the contracted part.¹⁶

These imports of rice, at prices previously lower than the world market, and "a steady and dependable market for rubber at a fair price" were called "undoubtedly the most important" benefits that Ceylon derived from the agreement (in the words of Mr. Dudley Senanayake, Ceylonese Premier). The Ceylonese Government has defended the rubber-rice deals as economically necessary to the welfare of the country in terms of stability and consumption.¹⁷

C. Stability of Barter

The drive to nationalization and stabilization of foreign trade seems to predominate in some countries even over the benefits of trade. Yet, it is not at all certain that Ceylon's trade with Communist China was any more stable (or advantageous) than that with the rest of the world, or, specifically, with the dollar area. While its exports of rubber to Communist China may have been stable over the period 1952-55, so were its total exports of that commodity. Total exports of rubber varied only slightly away from an index of 105 (1948 = 100) during the period 1952-55, dropping to an index of 95 in 1956. Also, total trade with Communist China showed no more stability than that with the dollar area, as evidenced by table five. How-

¹⁵ Communist China also extended a loan of 50,000,000 rupees (\$10,500,000) in September, for goods to be purchased in China over 4 periods; loan to be repaid in 10 years after 1961, at 2½% interest.

¹⁶ Ceylon also purchased 180,000 tons from Burma, 80,000 tons over the contracted amount, and paid more for the extra imports.

¹⁷ The Ceylonese Government desired certainty, and the barter deal was welcomed by local agencies, by the Ceylonese and Indian Chambers of Commerce, and even by rubber-estate owners, as a desirable move to the "ceylonization" of trade.

ever, exports of rubber to the dollar area during the same year showed greater variation. They amounted to 20,000,000 pounds in 1953, dropped to 13,000,000 pounds in 1954, jumped to 40,000,000 pounds in 1955, and back to 20,000,000 pounds in 1956.

TABLE V
CEYLON'S TRADE WITH COMMUNIST CHINA AND DOLLAR AREA, 1953-56

	CEYLON'S TRADE WITH COMMUNIST CHINA (million rupees and percentage)					CEYLON'S TRADE WITH DOLLAR AREA (million rupees)		
	Exports		Imports		Balance	Exports	Imports	Balance
1953.....	242	15.4%	209	13.0%	+33	209	69	+140
1954.....	222	12.2	158	11.3	+64	199	67	+132
1955.....	121	6.5	80	5.5	+41	280	101	+179
1956.....	182	11.0	134	8.2	+48	245	80	+165

During the period 1953-56, while the agreements with Communist China were in effect, Ceylon's total exports to each of the United Kingdom, West Germany, France, and Belgium were much more stable than the value of yearly exports to Communist China and totaled a considerably greater value of trade over the entire period.

There is little doubt that the barter deals with Communist China were to the temporary advantage of Ceylon. It gained sales it would otherwise not have had, and at favorable prices in terms of rice imports. But the circumstances giving rise to these benefits were temporary, and any permanent shift of Ceylon's trade out of world markets will undoubtedly be to its disadvantage.

III

INDONESIA

Indonesia has bilateral agreements with each of the Sino-Soviet-bloc countries, save Albania and Bulgaria. Its traditional trade pattern is heavily oriented toward Western nations, however, and through world markets. Since 1953, trade with the Sino-Soviet bloc also has risen rapidly; it rose threefold in 1955 over 1954, but the total was still only five per cent of Indonesia's total trade. The trend continued upward in 1956 and 1957. Communist China has been the largest supplier and importer among Sino-Soviet-bloc countries. Trade with the Soviet Union rose in 1958 mainly as a result of a large credit, and Indonesia's exports of rubber increased to both the Soviet Union and Communist China; the latter has also offered large credits.

A. Motivation

The Sino-Soviet attitude toward trade with Indonesia reflects an effort to penetrate South Asia. The economic drive is seen in the desire to tap Indonesia as a source of supply for rubber and tin.

To obtain these items, the Sino-Soviet bloc has been willing to pay prices ten per

cent above the world market and to export machinery and equipment which could normally be sold for hard currencies. The Sino-Soviet bloc has offered long-term credits to facilitate industrial development; and it has purchased from Indonesia items which were overhanging the world market. While the quantities of such items purchased have not been large, the Soviet Union has claimed propaganda advantages through "discrediting" the commercial practices of the West.¹⁸

A secondary motivation of the Sino-Soviet side in its trade with Indonesia has been the disposal of large quantities of second- and third-grade fabrics which have been difficult to market elsewhere. This put competitive pressure on Japan's exports to its traditional markets in the area.

The motivation on the part of Indonesia arose from no predisposition towards bilateralism; rather the contrary! It did not wish to bilateralize its trade and has succeeded in pressing a considerable amount of multilateralism on its Sino-Soviet partners.

The nature of Indonesia's trade is a strong factor in its leaning toward multilateralism. It exports world-market products: tea, coffee, copra, rubber, tin. Its imports consist of a wide variety of manufactured goods which are produced by industrialized countries for the world market. Indonesia, therefore, stands to gain little from bilateralism when trade is active. When trade is slow, and world demand is falling, it still finds little ability to shift its marketings to the bilateral-agreement countries. Such a temporary shift would disrupt the stability of Sino-Soviet trade.

Despite its desire for multilateralism, Indonesia has had to go some distance towards the agreement-type trade to trade at all with the Sino-Soviet bloc. Communist China, for example, has insisted on bilateralism; Indonesia has much political sympathy for Communist China and, therefore, has gone along. Even so, the agreement with Communist China (signed in November 1953) is the loosest of all Indonesia's agreements with Sino-Soviet-bloc countries and exemplifies the political motivation of Indonesia behind efforts to demonstrate economic neutrality.

The acceptance in 1956 of bilateralism with the Soviet Union was a concomitant of the extension of a \$10,000,000 credit by the Soviet Union. Indonesia has accorded even the East European countries some bilateralism as a means of reducing uncertainty in contracts with them. Since the bargaining power of a government agency is greater than that of individual traders, and since Indonesian firms are unfamiliar with East European goods, Indonesian traders have preferred to leave trade with East Europe to their Government.

B. Problems of Negotiation

The story of the gestation of the agreements with the Soviet Union is instructive in showing the problems arising from state trading. Negotiations were begun in 1951, but an agreement was concluded only in August 1956.

¹⁸ Vneshniaia Torgovlia (Moscow) reported in January 1955 that imports from Indonesia by "Czechoslovakia and the German Democratic Republic have included tapioca in the lists of goods to be imported at a time when its export dropped because the United States stopped buying it."

The Soviet Union initiated negotiations to obtain rubber from Indonesia, as Communist China was doing from Ceylon. The Soviet Union demanded first-grade (estate) rubber, for which there was always a ready world market, but Indonesia wished to sell the lower-grade (smallholder) rubber, which was in surplus. During 1952, Indonesia shipped no rubber to the Sino-Soviet bloc, despite Soviet offers of exports at discounts of twenty-five per cent or more under domestic prices in the Soviet Union and despite the Soviet Union's willingness to take Indonesian currency in payment. These offers were quite attractive to some Indonesian officials. The chairman of the Economic Affairs Section of the Indonesian Parliament asserted that the procedure suggested by the Soviet Union was "more practical" than that followed with the Western nations, under which Indonesia had to wait until it exported before it could buy abroad. Under the Soviet procedure, Indonesia could buy with its own currency, which the Soviet Union would then use to purchase rubber. Despite the lower (money) prices for rubber, however, the Indonesian Government considered that the Western market was more profitable.

In late 1953, however, the United States cut back its purchases of rubber, and the Indonesians became more eager to sell to the Soviet Union. The Soviet Union was reportedly willing to buy 100,000 tons of smallholder rubber. But prices and the kinds of Soviet exports offered were apparently still insurmountable obstacles; nothing came of the offer. In late 1954, the Soviet Union offered to extend a large-scale credit, but it required two years to negotiate the credit and trade agreements. The trade agreement provided no quotas and no clearing account. The Indonesian Government was much more interested in the credit, since it was under pressure from internal revolt and rapidly deteriorating economic conditions. Even so, the Parliament was hesitant about the loan and took eighteen months to ratify it (February 1958).

The credit agreement extended \$100,000,000 in economic and technical assistance for the planning, surveying, and equipping of plants to produce coal, nonferrous metals, building materials, and hydroelectric power. Indonesian technicians are to be trained, and Soviet experts are to be provided to assist in the operation of the plants. The credit bears $2\frac{1}{2}$ per cent annual interest and is repayable over twelve years in Indonesian goods or sterling or other acceptable currency.¹⁹

C. Experience under the Agreements

Indonesia entered the bilateral agreements largely in order to demonstrate friendship with the Sino-Soviet bloc, but it has recently withdrawn a considerable dis-

¹⁹ An additional credit of \$6,000,000 was extended by the Soviet Union in early 1957, covering the purchase of up to 4,000 jeeps, at prices reportedly equivalent to \$1,800, compared to an estimated cost of \$1,400 for a United States jeep of similar quality. The credit is to be repaid in installments over a 5-year period. Indonesia used part of the \$100,000,000 loan to buy 10 Soviet ships, at prices basically below world market for the types and tonnages purchased. The United States Government considered the ships and jeeps to be war material. The \$100,000,000 was also used on agricultural, industrial, and public utility projects. Thus, the Soviet Union agreed to build two steel mills and an iron-smelting furnace.

tance from strict bilateralism. For example, in 1956, Indonesia renegotiated its arrangement with Rumania, removing quotas, abolishing the clearing account and swing credit, and requiring all payments to be effected in transferable sterling under irrevocable letters of credit. This shift seems to be a reflection of a policy disposition of new governmental personnel, but it was also partly a result of high administrative costs relating to a very small portion (three or four per cent) of its total trade. The Government has recognized that Indonesian exports have a better market throughout the world and that bilateral trade gave the other country an advantage. That is, Indonesia's exports had readily comparable prices in the world markets, but its imports from the Sino-Soviet bloc did not have comparable world prices for ready reference. Not even a ten per cent premium on rubber was adequate to induce increased trade with Czechoslovakia.

Indonesia has also not been able to take advantage of the swing credits in its agreements with the Sino-Soviet-bloc countries to help finance its developmental needs. Not only is their total amount small, equaling less than £2,000,000, but Indonesia has also been a net creditor in amounts exceeding the swing credits. The credit position of Indonesia with East European countries in mid-1954 was some £2,599,000, but this was more than offset by the debit position with Communist China.²⁰ Though statistical evidence is not available that these conditions *persisted* over the past several years, the data in table six are indicative.

TABLE VI
INDONESIAN CREDIT POSITION WITH SINO-SOVIET BLOC, 1954-55²¹

	Swing Credit		Net Position
Czechoslovakia.....	£600,000	July 15, 1955	+£597,000
Poland.....	£200,000	May 1, 1954	+£1,145,000
East Germany.....	£150,000	July 1, 1954	+£43,000
Rumania.....	£200,000	July 1, 1954	+£255,000
Hungary.....	Nf200,000 ^a	July 1, 1954	+Nf4,895,000 ^a
Communist China..	£600,000	Sept. 1, 1954	-£4,501,000

^a in Dutch Guilders: Nf 10.916=£1.

The Indonesian Foreign Ministry announced in mid-1956 that the trade agreements with East Germany, Poland, Czechoslovakia, Hungary, and Bulgaria were a "fiasco," since Indonesia received nothing but nontransferable credits from these countries. Even so, several observers have stated that they have found no evidence that the imperfect working of agreements was an important factor in Indonesia's shift away from bilateralism;²² rather, its changed attitude was a reflection of its over-all trading position.

²⁰ An additional offset arose from the loans which Indonesia received from the Soviet Union, Czechoslovakia, and East Germany. See U.S. DEP'T OF STATE PUB. No. 6632, *THE SINO-SOVIET ECONOMIC OFFENSIVE IN THE LESS DEVELOPED COUNTRIES* 78 (1958).

²¹ Times of Indonesia (Djakarta), July 24, 1956, from an Antara press release, as given in an unpublished paper by W. C. Hollinger.

²² There is evidence that Indonesia was dissatisfied with the re-export of rubber by Czechoslovakia, but

Any thought of trading with the Sino-Soviet bloc as a means of gaining set amounts of foreign exchange in stable markets was quickly dispelled. Trade with Czechoslovakia was practically nonexistent prior to the agreements; but under the agreement, Indonesia's exports jumped from \$3,800,000 in 1954, to \$10,600,000 in 1955, and dropped precipitously to \$800,000 in 1956. Exports to Poland and Hungary were almost equally unsteady. Only exports to Communist China showed a steady growth under the agreements—from \$2,300,000 in 1954, to \$6,200,000 in 1955, and \$11,700,000 in 1956. By comparison, Indonesia's yearly exports to the United States, France, West Germany, and Belgium during the years 1953-56 showed a remarkable stability with each country; variations ranged from one to thirty-five per cent. Exports to the United Kingdom showed yearly increases of over fifty per cent during 1954 and 1955, leveling off in 1956.

To prevent the accumulation of bilateral balances resulting from unstable trade, Indonesian officials had to restrict exports. Indonesia also encouraged the use of compensation transactions with Czechoslovakia and Hungary. The large export balance with Poland in 1954 was evidently met by triangular transactions, such as the delivery of Polish coal to Italy, which, in turn, exported to Indonesia. Export surpluses would mean that Indonesia was extending credit, and officials believed that this result would be hard to justify. The small demand in the country for East European goods was a factor limiting the volume of trade.

Despite their cautious approach, Indonesian officials became convinced in late 1955 and early 1956 that barter trade and bilateral agreements with the Sino-Soviet bloc "hurt the country's interest," in the words of Prime Minister Harshap. In a speech before the Indonesian Parliament on October 24, 1955, explaining the limited trade with the Sino-Soviet bloc during 1955 (the Sino-Soviet bloc supplied about seven per cent of Indonesian imports and took about four per cent of its exports), he amplified this view as follows:

It is an open secret that parallel transactions with the East European countries have brought about a reduction in the overall sale of our foreign exchange. Raw materials we have sold these countries are usually re-traded in other markets . . . with the result that in the world markets we have to compete with goods originating in our own country. In other cases parallel transactions have resulted in a surplus credit in the form of money which does not serve our purposes well, because imports of goods from the countries concerned do not meet the need of the producing sector of our country . . . [W]ith barter trade and compensation transactions our exports are usually sold at a lower price than that obtained in the world market. Losses suffered are compensated by increasing prices of articles imported under the transactions. Thus the country loses doubly: on the one hand, it receives less foreign exchange, and on the other Indonesian customers have to pay heavily for increased prices of imported goods.

Indonesia used the expiration of trade agreements with East European countries

this was supposedly adjusted by a provision in the 1956 agreement stating that re-export of the other's goods was to be permitted only under surveillance of a joint committee making determinations on a case-by-case basis.

during 1956 to eliminate provisions which tied its trade too closely to Sino-Soviet bloc exports. Thus, bilateralism was effectively taken out of the agreements through provisions for multilateral settlement of balances and for payment in convertible currencies. In addition, the volume of trade under these agreements was reduced. The trade with Communist China has been increased under the agreements, but its total volume is still small.

As a further implementation of the policy of liberalizing its trade relations with the Sino-Soviet bloc, Indonesia canceled the payments agreement with Poland as of April 30, 1957; all future letters of credit or supply contracts have to be settled in sterling.

The record of the Indonesian experience should include a reference to the fact that part of the disaffection of the Indonesian officials may have been a result of their poor planning, negotiation, and execution of the agreements. Their inefficiency, in turn, resulted from several conditions: (1) uncoordinated and *ad hoc* "planning" of the economic program and the import needs of the economy; (2) an inept administration—resulting from the loss of trained officials previously provided by the Dutch, the failure to establish clear-cut duties for each of the several government agencies interested in foreign trade (*e.g.*, Ministry of Finance, of Economic Affairs, Foreign Affairs, and Agriculture, plus the Bank of Indonesia), and the failure to coordinate action among the various departments of each agency (*e.g.*, the Central Import Bureau and the Central Export Bureau within the Ministry of Economic Affairs); (3) lack of knowledge of how to negotiate, of what the market conditions were at home and abroad, and of what commercial techniques and procedures were required; and (4) a heavy political overtone which seemed to place the successful signing of an agreement (*any* agreement) above the provisions or execution of the agreement. Fortunately, the agreements were loose enough not to bind Indonesia to specific purchases or sales. Quotas, where included, were guarantees only of the Government's willingness to issue licenses up to the specified amount.

In sum, Indonesia has become somewhat disaffected from bilateralism because (1) the agreements did not open substantial new markets; (2) it sustained a net loss of exchange through the accumulation of balances with the Sino-Soviet-bloc nations; and (3) the overhead cost of negotiating and administering agreements made bilateralism uneconomical. While Indonesia will probably expand trade with the Sino-Soviet bloc, it seems little interested in conducting it by state trading.

IV

INDIA

India's approach to bilateral trade and barter with the Sino-Soviet bloc has changed quantitatively, if not in policy, during the past few years. It has agreements with each of the Sino-Soviet bloc countries, save Albania.²³ India's motivation

²³ By comparison with these 9 agreements, India has only 15 bilateral agreements with countries of the rest of the world.

has been similar to that of Burma and Ceylon, but its agreements have been less binding than those of other developing countries with the Sino-Soviet bloc. The Soviet Union and its satellites have accepted looser agreements because they have been especially interested in entering Indian markets. On its part, India has established the State Trading Corporation specifically to deal with the Sino-Soviet bloc. The Sino-Soviet bloc partners have made the results of trade favorable to India and have extended credits and technical assistance—both evidence of India's strategic importance and political leadership among the South Asian countries.

A. Motivation

India's motivation stems from its drive to industrialization and its reliance for almost all of its export earnings on half a dozen agricultural commodities. It has taken most of its imports of industrial and finished goods from the countries to which it exports. Its trade with the Sino-Soviet bloc was minor, until 1957.

In order to accelerate the growth of the Indian economy and to reduce its dependence on foreign countries for capital goods, the Government embarked on a five-year plan of economic development, covering the years 1951-52 through 1955-56. The United States extended the equivalent of 700,000,000 rupees to help meet the 20,000,000,000 rupee estimated cost of the program, and the Soviet Union offered 630,000,000 rupees for construction of a steel plant. India sent missions throughout East Europe in late 1956 seeking additional help.

The capital and technical assistance from, and increased trade with, the Soviet Union have been covered mostly by bilateral agreements. In the eyes of some observers, the small value of trade with the rest of the Sino-Soviet bloc has not warranted the time spent in negotiating agreements. India's motivation must, they conclude, be that of displaying its economic (and political) neutrality by opening the gates to trade with all countries. This view is supported also by the fact that India's agreements generally do not provide for quotas or guarantee any aggregate volume or value of trade.

B. Volume and Composition of Trade

India's experience under the agreements with the Sino-Soviet bloc covers only about four or five years.²⁴ Prior to the general trade and payments agreements, India had bartered jute for rice and wheat. Although the agreements have not set target quotas, bilateral balance was the objective of the Soviet Union's agreeing to purchase Indian goods of an "equal value" to India's imports from the Soviet Union. And North Vietnam accepted payment in Indian rupees, which can be used (in effect) only to buy Indian goods. However, Czechoslovakia obtained permission to transfer rupees it received to Egypt and Indonesia, with which it had an adverse balance

²⁴ India signed its first agreement with a Sino-Soviet-bloc country in January 1951 with Poland, and one with Czechoslovakia in March 1951. It signed most of the remainder during 1953 and 1954; the one with North Vietnam in 1956.

of payments. The Soviet Union, Hungary, and Poland agreed in 1958 to trade for rupees, and East Germany has offered a five-year agreement to trade for rupees.

The anticipated expansion of trade with the Sino-Soviet bloc had not occurred by 1955. During 1956 and 1957, India placed greater emphasis on trade under the agreements and on an expansion of commercial relations with the Sino-Soviet-bloc countries. The value and volume of India's trade with the Soviet Union in 1956 was five times that during 1955; it rose from just over \$10,000,000 to just under \$50,000,000 in value. But this was still only 1.6 per cent of India's total foreign trade, as compared to 0.4 per cent in 1955. An important tactic in the Soviet Union's trade was reflected in its purchase from India of 20,000 cases of raw cashew nuts in July 1956 and of pepper in the winter of 1956-57, thus bolstering sagging markets (Czechoslovakia had used the same tactic in the mica market during early 1954, as had other Sino-Soviet countries at different times).

The Soviet Union also bought tons of tea and coffee and placed large orders for shoes and handicrafts, the latter helping to bolster India's cottage industries. India's trade with Communist China rose by two-thirds in 1956 over the 1955 level; but total trade with Communist China was still only about \$25,000,000, or less than one per cent of India's total trade with the world. Communist China's purchases of raw cotton almost quadrupled, making it a principal customer of India in that commodity. India had purchased sizable amounts of iron and steel in 1956-57 from Communist China and of Chinese rice during 1958. Trade with Czechoslovakia more than doubled in 1956 over 1955, rising to almost \$13,000,000; Czechoslovakia remained the second largest buyer of Indian iron ore, following Japan. Over ninety per cent of India's trade with the Sino-Soviet bloc is with these three countries: the Soviet Union, Communist China, and Czechoslovakia. India's total trade with the Sino-Soviet bloc (including Communist China) doubled in 1956, as compared with 1955; its exports to the world did not rise in 1956, but over-all imports by India rose twenty per cent. Of the total, Sino-Soviet-bloc trade in 1956 accounted for three per cent of imports and three per cent of exports, as compared to two and one per cent, respectively, in 1955. Data on 1957 are expected to show a significant rise in these figures.

Commodity-wise, the Sino-Soviet bloc showed an increasing awareness of the importance of shipping steel and cement to India to bolster its development program. The Soviet Union, Poland, and Czechoslovakia were to supply over half of the steel imports purchased on government account during fiscal 1956-57; and Czechoslovakia agreed in 1958 to ship and assemble equipment and train workers for a metallurgical plant in Bihar, near a heavy-engineering plant built by the Soviet Union. India arranged for the import of some 483,000 tons of cement during 1956, of which 195,000 tons were to come from the Sino-Soviet bloc; the current world price was asked by the suppliers.

In January 1956, the Indian Government purchased twenty coal-drilling rigs from the Soviet Union, valued at 2,150,000 rupees (\$450,000). They reached India six

months after order date, showing that the Soviet Union placed a high priority on facilitating the coal-mining projects of India. The speed of delivery impressed the Indian Government so much that it entered into further negotiations with the Soviet Union on coal-mining equipment. Reports indicate that the Soviet Union has agreed to supply mechanized coal-mining machinery and is anxious to establish a "show-piece" in India for Soviet technology in coal-mining.

C. State Trading Corporation

India established a state-trading agency in May 1956 to monopolize the exchanges with the Sino-Soviet bloc. The agency was established partly to equalize bargaining power and also to encourage cottage industries in India by centralizing sales in bulk. It provides a guaranteed market to these producers; and it is not bothered by the fact that many cottage products (*e.g.*, shoes) are not standardized, for the Sino-Soviet-bloc traders find lower quality goods and nonstandardized items quite acceptable in their domestic markets.

Though the State Trading Corporation became increasingly important during late 1956 in the trade with the Sino-Soviet bloc, by the end of December 1956, the agency had signed firm contracts with these countries on goods valued only at \$16,000,000. Trade with non-Sino-Soviet-bloc countries was guided through the STC also; contracts with the Sino-Soviet bloc accounted for only forty-five per cent of all the STC's export contracts at the end of 1956.

Operations were expanded during 1957. The STC has a monopoly in imports of some items (such as caustic soda, soda ash, and raw silk, when the China trade was prohibited to individuals) and in some exports, but its control over all Sino-Soviet-bloc trade was still relatively minor through 1957, as seen by the fact that only twenty per cent of trade with the Sino-Soviet bloc was handled by the STC. In May 1957, the Indian Government decreed that all exports of iron ore would go through the STC. The objectives were to coordinate mining with shipping facilities, to facilitate bulk shipments, and to prevent the fragmentation of quotas. Private channels of trade were still to be used by the STC. Shipments of manganese ore were placed under a licensed quota, and the STC was given a quota sufficient to permit its maximizing the export of the ore; it was also permitted to shift some of its quota to private exporters when desirable.

During the STC's first year of operation (through June 1957), it imported mainly bulk items—cement, chemicals, and fertilizers—and exported primarily iron and manganese ores. From May 1956 through August 1957, it had exported \$63,000,000 worth, as compared to imports of \$42,000,000. The STC had sent three-fifths of the iron ore exported to the Sino-Soviet bloc (Poland, Czechoslovakia, and Hungary). Its exports to the Soviet Union were primarily of shoes, coffee, textiles, woolen fabrics, salt, and handicrafts. STC's imports of cement came from non-Sino-Soviet-bloc countries mainly, but within the Sino-Soviet bloc, heavily from Poland and Rumania;

soda ash came wholly from Communist China and East Germany; ammonium sulphate, one-third from East Germany and two-thirds from the United States; raw silk, half from Japan and half from Communist China. By the end of 1957, exports by the STC had grown to over \$77,000,000 (of which \$13,000,000 went to the United States and \$23,000,000 to Japan); its imports totaled nearly \$35,000,000 (of which \$4,000,000 came from the United States and \$2,400,000 from Japan).

During 1957 and 1958, the STC negotiated deferred payments arrangements from the Sino-Soviet-bloc countries (such as were extended to private traders by West European countries). It ordered 500 Soviet tractors, despite the fact that the private trade had taken only nineteen such machines, even at low prices offered by the Soviet distributor. These tractors were sought because foreign exchange was not needed; India would pay in rupees, to be used for Indian exports under the bilateral trade agreements (these rupee balances would not be convertible into sterling). The STC also negotiated some "link" trading arrangements with East Germany, North Vietnam, and Hungary; for example, Indian gunny bags and hemp were exported to North Vietnam, in return for rice from the Soviet Union.

The Soviet Union was the fourth largest trader with the STC, following three non-Sino-Soviet-bloc countries: Japan, the United Kingdom, and the United States. After the Soviet Union came Czechoslovakia, Poland, Communist China, and North Vietnam. The remaining Sino-Soviet-bloc countries and over ten other nations made up the remainder of the trade partners. Thus, as anticipated by some, the STC extended its operations outside of trade with the Sino-Soviet bloc and thereby fell heir to the problems of bulk purchasing in an open market.²⁵ For example, the Times of India reported (October 17, 1957) that the STC sold manganese ore in August 1956 at prices below the world market and then had to buy on that market in order to meet its commitments. Other critics noted that it failed to meet some contracts with the United States, Japan, and France for manganese ore. The STC was reported also to have had to rely on private channels, but at the same time to have charged a commission for its services. In late 1957, the STC appealed to private traders to expand their exports; and even Sino-Soviet-bloc countries were reported to prefer to deal with private traders in India through the bilateral agreements.

In its defense, the STC claimed that it had eliminated unfair competition among Indian exporters, extended credit to them, solved shipping problems, and created new markets for iron and manganese ores in Italy, Yugoslavia, and Hungary.

Despite the criticism, the expansion of the activities of the STC has been taken as an indication that state trading in India is a permanent addition to its international operations.

²⁵ For a discussion of some of the results of India's bulk purchasing and of the experience of other state-trading agencies with the Sino-Soviet bloc, see Saraiya, *Economics of State Trading*, Commerce (Bombay), March 10, 1956, pp. 448 *et seq.*

D. Technical Assistance

During late 1956 and throughout 1957, Sino-Soviet-bloc countries offered a variety of assistance in the development of India.²⁶ Offers included the sending and training of experts, provision of machinery and plant equipment, extension of loans, and the construction of factories, mining, and transportation facilities. A singular agreement along these lines was the Soviet contract to erect an iron and steel plant in Bhilai, India, under a twelve-year loan of \$132,300,000 in machinery, equipment, and structural steel; the loan was projected to meet half the cost. (India later asked for an increase in the loan to meet rising costs, but the Soviet Union refused.) Interest is to be 2.5 per cent. Construction of the plant is scheduled to be completed by the end of 1959; it will be given an operating guarantee by the Soviet Union for six months, and the Soviet Union will provide technicians for three years after the mill reaches capacity operation. These technical services, plus those in preparing the report on the project and design drawing, have been valued at \$5,300,000, in addition to the value of equipment supplied. The Soviet Union will also train an adequate number of Indians as technicians, so that they may take over the plant operations as soon as possible.

In November 1957, a second loan agreement was signed after twelve months of negotiation. It extended \$126,000,000 worth of Soviet goods in connection with two heavy-machinery plants, a power station, a lignite factory, an optical glass factory, development of the Korba coal field, and reconditioning of a Methanol plant.²⁷ Including these two large credits, the Sino-Soviet bloc has extended some \$300,000,000 in loans to India; the balance over the \$258,000,000 above is made up of a few small loans and several deferred payments arrangements negotiated by the STC.²⁸ (Communist China has, so far, not offered financial aid to India.)

The impact of this aid has been enhanced by Soviet concentration on a few large projects which can be readily seen and which fit closely with the development programs of India in heavy industry. Besides the projects mentioned above, the Soviet Union has supplied most of the Indian equipment for oil-drilling. This fact was the basis for an Indian request to the United Nations Technical Assistance Administration in July 1956 to provide the services of a Soviet petroleum expert. The Soviet Union has agreed to erect drilling rigs at the site free of charge, to assign twenty-two Soviet technicians at each site for six months, and to help train Indian oil engineers. Rumania has supplied equipment for oil-well drilling, has sent prospecting teams and geologists to survey Indian petroleum resources, and is building an oil refinery on credit. The Soviet Union also offered in 1958 to extend financial and technical aid for a state oil refinery.

Soviet assistance has also been extended in the form of equipment or technical aid

²⁶ India refused an offer of Soviet military assistance.

²⁷ An interesting facet of the agreement was the Soviet Union's pledge to indemnify the Indian Government in the event that any foreign-owned patents were infringed by the equipment or processes sent by the Soviet Union.

²⁸ U.S. DEP'T OF STATE PUB. No. 6632, *op. cit. supra* note 20, at 90-93.

in the areas of coal-mining, heavy-machinery manufacturing, production of pharmaceuticals (including on offer of a \$20,000,000 credit), mineral-mining and processing, production of nonferrous metals, manufacture of ophthalmic glass, and education of technicians.²⁹ India has received offers from Czechoslovakia, Poland, Rumania, and East Germany relating to the development of production of steel, motion pictures, railway supplies and equipment, coal, certain metals including copper, agricultural implements, lignite, newsprint, electrical equipment, and machine tools. Soviet aid has also been offered to build up India's merchant marine and to construct ports.

E. Evaluation of Sino-Soviet-Bloc Trade

The objectives of India's expansion of bilateral and state trading with the Sino-Soviet bloc were mainly to obtain additional goods for its development and at prices lower than available in the West. Thus, the rise in imports from Communist China was a result of the fact that prices were apparently lower than those quoted by Western suppliers.

Lower prices have not always resulted from Sino-Soviet-bloc trade, however. Some skepticism has been expressed among observers in India as to whether the prices charged in connection with Soviet loans and assistance are competitive with those of Western goods. The press recorded concern that the prices charged for materials supplied under Soviet loans would be "comparatively higher" and thus minimize the benefits of easy credit terms offered by the Soviet Union. The evidence presented in the press was that the "prices of all articles are generally very high in Russia and the official exchange rates between the ruble and other foreign currencies represent a fantastic over-valuation of the ruble."³⁰ In addition, the delay in the completion of the Bhilai steel project by over a year will counteract much of the attraction of the low interest on the loan; delay will be longer, since iron ore is unlikely to be sufficient for production until a year after completion of the steel plant in late 1960. It must be stated, however, that the delay was not wholly the fault of the Soviet Union. India lagged in appointing contractors, and there was a lag in the installation of the electrical lay-out of the plant.

Although India has received substantial additional goods for development from the Sino-Soviet bloc, most of them have come through the large loans from the Soviet Union. Communist China's lists of goods available under the trade agreement presumably show more hope than reality; a large number of items of industrial production are listed which are not available in quantities sufficient for export. The agreement with Communist China has apparently been of marginal advantage to a few Indian producers and exporters, mostly of cotton textiles, tobacco, spices, rubber, and jute goods. Large jute exports go also to Poland, resulting frequently in a bilateral surplus balance for India.

²⁹ The number of Indian steel technicians the Soviet Union is to train in its country was set at 680 under the agreement; this compares with 1000 such Indian students in the United States, 300 in the United Kingdom, and 100 in West Germany.

³⁰ American Embassy Dispatch 1319, April 29, 1957, quoting Indian press without citation.

The agreement with Hungary also offers a long list of items related to the developmental needs of India. But, whether because of price problems or inability to obtain delivery, India has steadfastly refused to commit itself to specific trading targets. Hungarian traders must find a place for their exports in the narrow area left uncovered by India's traditional and major suppliers.

Despite the agreements and the importance attached to them by the Soviet Union, Western nations were still by far the largest suppliers of India's needs. And India has not found any greater stability in bilateral trading. The value of India's exports to the Sino-Soviet bloc fluctuated considerably more than the value of her exports to Western countries. The market afforded by the Soviet Union itself was unstable. India's exports to the Soviet Union dropped from \$13,600,000 in 1951, to \$7,000,000 in the year before the Soviet agreement, and then rose very unsteadily to \$26,000,000 in 1956—a large jump over the previous year. Irregular purchases by the Soviet Union were a result of its efforts to buy in slack markets; for example, it bought carpet wool at low prices in a slack market, much to the gratitude of the sellers.³¹ India's yearly exports to Czechoslovakia, even after the 1953 Czech agreement, dropped by more than fifty per cent, and then almost tripled in 1956. The agreement years 1954-56 saw yearly exports to Communist China rise fourfold, and then drop almost fifty per cent; when Indian demand for rice dropped, Communist China's imports became nominal.

In comparison, exports to each of the United States, United Kingdom, West Germany, France, and Belgium maintained a relatively steady volume during the years 1953-56. The largest drop in exports to any of these countries was twenty-seven per cent, but this was unusual. The largest rise was fifty per cent, but, again, this was unique. In the main, yearly variations ranged from zero to fifteen or twenty per cent.

Although bilateral trade, mainly with the Sino-Soviet bloc, and state trading have become an integral part of India's trade activity, there seems to be little in the results (save the aid connected with some agreements) which would induce it to expand greatly such operations.

CONCLUSIONS

Burma, Ceylon, India, and Indonesia entered bilateral or barter trade with the Sino-Soviet bloc not so much in response to the attractions of state trading, as through a desire to accelerate economic growth (and nationalism) and to demonstrate political neutrality. These objectives could be served by economic contacts with the Sino-Soviet bloc, and such contacts could be placed on a "permanent" basis only through bilateral agreements. These motives can be generalized for all undeveloped countries in their trade with the Sino-Soviet bloc. They apply to South America, the Middle East, and other South Asian countries as well. Most

³¹ Indian sellers have been impressed by the Soviet Union's "hardheaded" business dealings, but also by its fairness. She pays 90% on delivery, and 10% 5 months later to facilitate making claims. Since it became a large purchaser of wool, no claims have been made.

of these countries would be equally or better satisfied to trade with the Sino-Soviet bloc on a world-market basis; some, however, were attracted by the stability of a "guaranteed" market for their staple commodity and by the offer of apparently higher prices from the Sino-Soviet bloc. The basic economic objective was to obtain more goods for economic development than could be obtained from the West, in exchange for the country's traditional export, at prices which it thought reasonable.

The experience of the four countries examined here can also be generalized for most of the developing countries. They have not always found a ready supply of capital goods and other commodities needed for their development, especially at qualities and prices desired. However, where the Sino-Soviet bloc has had a strong political motive to make the deals favorable, a few of the developing countries have benefited at least temporarily. The benefits have been strongest where Soviet assistance (loans and technical aid) was forthcoming. Only in exceptional cases have the developing countries obviously benefited from barter or bilateral agreements, as compared to what could have been done through the world market over a period of a few years.

This is not to argue that there was little benefit from such trade; rather, it is difficult, if not impossible, to demonstrate that there was a benefit greater than would have arisen from nonstate trading transactions. What benefit there is to the developing countries will undoubtedly grow in the future, as the Sino-Soviet-bloc countries raise the quality of the goods they offer and as they become practiced in the ways of trading with foreign countries. The capacity of the Sino-Soviet bloc to trade is rising, and it has a strong drive to penetrate the markets of neighboring or "strategic" countries. The success of its operations to date is partly a reflection of the fact that it has concentrated on a few countries. The lack of complete success in these cases is a result of the fact that the Sino-Soviet bloc (like all nations) does not pursue only one goal at a time—*i.e.*, to the exclusion of others. The willingness and ability to satisfy the demands of the developing countries has been reduced at times by competing domestic demands. But as these are met, the Sino-Soviet bloc can turn more to complying with the requests of countries it wishes to woo.

The United States cannot expect to prevent all penetration of the Sino-Soviet bloc into the developing countries; some trade with the Sino-Soviet bloc will be beneficial and economic for them. But the West should endeavor to compete with the Sino-Soviet bloc by providing opportunities to buy and sell goods in the world market on terms more favorable in the long-run than can be obtained with the Sino-Soviet bloc. The West undoubtedly can compete effectively on these terms—and to the benefit of the developing countries, which are greatly interested in price, quality, and ready availability of goods. It should not be drawn into competition in the extension of aid. But it should endeavor to prevent any binding of the developing countries, economically or politically, to the Sino-Soviet bloc; such a situation is not desired by these countries or by the United States.

The West can gain these objectives if it insists on commercial bases of trading.

If the developed and undeveloped countries alike insisted that the Sino-Soviet bloc trade through the world market, it would have to do so. India and Indonesia have had considerable success in this regard, as have the United Kingdom, and West Germany. If the developed countries would adopt policies which would assist the undeveloped nations through temporary difficulties, the use of state trading and barter with the Sino-Soviet bloc to relieve such difficulties would not be so attractive and could not become an entering wedge into more permanent discriminatory agreements.

While the policy-maker may wish a more "imaginative" prescription than the progressive removal of national restrictions on trade and a more effective use of the existing international institutions (such as GATT, IMF, IBRD, etc.), this proposal is imaginative enough in that it has never been tried. The policy of the West should not be directed only to expanding trade, however. There is a place for extraordinary assistance and a larger place for international lending (public and private). But these must find their role within the over-all picture of a world trading through nondiscriminatory markets.